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Eighth session

SUMMARY RECORD OF THE 6th MEETING

Held at the Vienna International Centre, Vienna,
on Wednesday, 3 July 1991, at 10 a.m.

President: Mr. TOFIGH (Islamic Republic of Iran)
later: Mr. CONSTENLA (Costa Rica)

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The meeting was called to order at 10.20 a.m.

INDUSTRIAL INVESTMENT PROMOTION (IDB.8/18; IDB.8/CRP.2)

1. Mr. ARAOZ (Deputy Director-General, Department for Industrial Promotion, Consultations and Technology) said that document IDB.8/CRP.2, containing a summary report on the evaluation of the industrial investment activities of UNIDO, pointed out that UNIDO was one of the first international organizations involved in the promotion of foreign investment for the industrialization of developing countries (paragraph 24). The various activities undertaken by UNIDO followed accepted and viable approaches, but their efficiency and effectiveness could be enhanced in areas where UNIDO had comparative advantages. A start had already been made in implementing the recommendations of the evaluation report, and he was confident that when the other recommendations were implemented the impact of UNIDO's industrial investment programme would be considerably enhanced.

2. That impact was not only to be measured in terms of the number of projects successfully promoted. There were important positive effects in developing countries through training and the development of national capabilities for the identification, preparation and promotion of projects. Other positive effects were the learning process undergone by local entrepreneurs who, in investment forums and elsewhere, were brought face to face with prospective investors who worked with them to refine their projects. They became aware of the shortcomings as well as the hidden possibilities of their projects as they went through the process of discussion of intentions, opportunities, costs and possible alternatives. Thus developing country entrepreneurs acquired new knowledge about possibilities in the real world and about the procedures and methodologies needed to develop those possibilities into bankable projects.

3. During the past few years there had been a growing appreciation of the effectiveness and usefulness of UNIDO's investment-related activities. UNIDO was receiving an increasing number of requests from developing countries for the design and implementation of integrated technical co-operation programmes with the aim of mobilizing additional investment resources, enhancing the investment climate and improving the environment for private-sector development.

4. Moreover, several international development and financing institutions were now co-ordinating their activities with those of UNIDO. Those

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institutions included the Centre for Industrial Development of the European Economic Community, the Commonwealth Secretariat, the Andean Development Corporation, the Africa Project Development Facility, national development and financing institutions and UNIDO's recently established Private Sector Development Division.

5. There was noticeably growing interest on the part of industrialized countries and some developing countries in setting up UNIDO investment promotion offices.

6. Document IDB.8/18 provided detailed information on progress made on promoting the flow of investment resources to developing countries, the strengthening and establishment of investment promotion institutions, regional investment promotion, increasing the number of delegates from developing countries in the Investment Promotion Service (IPS) offices and strengthening coordination with the United Nations and other organizations concerned with the promotion of investments. However, the expansion of UNIDO's activities was restricted by the limited resources made available under the zero growth regime. He therefore appealed to members of the Board to identify ways and means of channelling additional resources into UNIDO's investment activities. The Secretariat was ready to assist in that regard.

7. Mr. PLUG (Netherlands), speaking on behalf of the 12 member States of the European Community, said that document IDB.8/18 had unfortunately arrived too late for an in-depth examination.

8. The member States of the European Community welcomed the comprehensive evaluation report on the industrial investment activities of UNIDO. Such evaluations were needed so that the Organization's activities could be kept under constant review.

9. The general conclusions to be drawn from the report were, however, similar to those of earlier reports, namely that there was a lack of internal coordination of the activities conducted by one unit or section in relation to the work of other units, that there was a focus on quantitative as opposed to qualitative output, and that the units or sections concerned did not pay sufficient attention to setting priorities for the various activities. Such deficiencies should be remedied.

10. The member States of the European Community agreed that it was necessary to provide for further integration of investment through better coordination both within UNIDO Headquarters and with the IPS offices or their equivalents, that criteria should be developed to improve the quality of projects by the Industrial Investment Division, and that stronger networking of focal points should be provided in both developing and developed countries.

11. Moreover, the European Community endorsed the need for clear terms of reference on the selection and assessment of projects, the formulation of minimum standards for projects and sponsors, a realistic time-scale for keeping projects on file, and adequate information on sponsors. They would like to hear how the Director-General intended to implement those recommendations.

12. The member States of the European Community again stressed the importance of the decision in resolution GC.3/Res.19 that IPS offices in developing and recipient countries should promote industrial investment in other countries as well as inward investment, and endorsed the finding of the report that an environment conducive to foreign investment was essential to that end.

13. Another area where the Industrial Investment Division had full responsibility was in the organization of the investment forums, which provided a means to reach potential investors and sponsors. However, some investment forums seemed to be an end in themselves rather than a stage in the process of investment promotion. The forums should be well prepared and should focus on small and medium-sized projects, kept as short as possible, limited to two or three per year, and geared to the needs of the business community. Appropriate attention must be paid to follow-up.

14. The need to improve cooperation with other international, regional and bilateral financial institutions was more pressing than ever. The member States of the European Community supported the recommendations on coordination at the country level and looked forward to hearing of the outcome of talks with the World Bank and other financial institutes.

15. Noting that the Director-General's revised proposal for the restructuring of the organizational and staff structure included the merging of the Feasibility Studies Branch with the Industrial Investment Division, he observed that, whatever structure was selected, its success would depend on close coordination.

16. Mr. MOHAMMED (Nigeria) said that his delegation supported the regional focus of UNIDO's investment activities and hoped that the programme would be further strengthened.

17. He urged that the Secretariat should take due note of the conclusion of the evaluation report concerning the need to assist regional and subregional investment projects for the least developed countries and offer institution-building technical assistance to improve their regulation and assist them in establishing investment promotion agencies.

18. The investment climate in Nigeria had now been totally liberalized, and foreigners could establish any business either alone or in a joint venture with others. Nigeria hoped that more foreign investors, both official and private, would take advantage of the current opportunities for investment. Moreover, Nigeria hoped that the Secretariat would continue to support and assist the follow-up activities in seeing through the projects for which letters of intent had been signed at the recent investment forum held in May.

19. His delegation endorsed the conclusions and recommendations contained in the report on the evaluation of the industrial investment activities of UNIDO (ODG.12(SPEC.)), which were far-reaching, useful and detailed and merited serious consideration by the Secretariat.

20. Mr. Constenla (Costa Rica) took the Chair.

21. Mr. POLAIAJKO (Commonwealth Secretariat) said that the Commonwealth Secretariat, the intergovernmental organization of the 50 member countries of the Commonwealth based in London, had had an active programme of technical assistance to promote the industrialization of the developing countries of the Commonwealth for just over a decade. In 1980 the Industrial Development Unit (IDU) had been established within the Commonwealth Secretariat, to complement the

already existing programmes of the Commonwealth Secretariat's Commonwealth Fund for Technical Cooperation in the fields of export market development, education and training and the provision of long-term experts to developing countries.

22. The main function of the Unit was to act as a catalyst to help channel technology and capital resources from one part of the Commonwealth to another in the pursuit of industrial growth. Since 1980 the Unit had undertaken over 700 technical assistance projects to develop new industries or to rehabilitate existing industrial enterprises. During the last five years, almost 100 projects receiving technical assistance from the Unit had commenced or increased production, involving mainly private sector investments of about $100 million and providing employment for over 12,000 people.

23. In its programmes of technical assistance, the Unit had collaborated closely at an operational level with the Industrial Investment Division of UNIDO. It had co-sponsored with UNIDO industrial investment promotion forums in Sierra Leone, Kenya and Nigeria. That collaboration included sharing in the technical consultancy work of project identification and preparation, organization of the investment forums and follow-up technical assistance support to industrial projects promoted at the forums. The Unit had found that type of cooperation to be a cost-effective way of implementing technical assistance activities in the developing countries of the Commonwealth.

24. Collaboration with UNIDO had also given the Unit an opportunity to discuss in depth with UNIDO staff the strategies and operational measures that were most effective in promoting industrial investment. The Commonwealth Secretariat had been consulted by UNIDO during the field work for the report on the evaluation of industrial investment activities of UNIDO which was currently under discussion. The Unit found the report well researched and well thought-out and supported the concept of the need for an integrated approach in investment promotion that adjusted to the different stages of the project investment cycle.

25. The Commonwealth Secretariat's experience over the last decade had shown that successful industrial project development required the design and implementation of a coordinated package of technical assistance measures for the promotional, implementation and operational stages of industrial projects. It usually took several years for a project to mature in a developing country, and another lengthy period for a project to reach the stage of production. There was therefore a need for a multiphase and multifaceted "turnkey" type of approach to technical assistance at project level, which maintained close coordination with the activities and requirements of project sponsors and technical and financial collaborators throughout the project development cycle.

26. Mr. HOSSEIN ZADEH (Islamic Republic of Iran) said that the comprehensive documents submitted to the Board showed that good progress had been made recently in UNIDO's industrial investment activities. However, in his own region it had not been possible to make use of such investment facilities. The war in the Persian Gulf had caused much human and material loss to the countries of the region, the true dimensions of which had not yet been revealed. Although his country had taken a neutral stance, and because of its humanitarian beliefs had done its best to prevent the spread of war, it had suffered huge losses.

27. More than a million Iraqi refugees had fled to the Islamic Republic of Iran, which was spending about a million dollars a day to shelter and feed them. Although some Member States of UNIDO had helped in coping with that human tragedy, much still needed to be done for the refugees.

28. Another result of the war in the Persian Gulf and the influx of refugees was that the chances of investment in the development of the countries of the region had been greatly reduced.

29. As far as industrial development promotion was concerned, his Government had decided to set up an Industrial Promotion and Technological Cooperation Service (IPTCS) in Tehran. The preliminary draft project document was under negotiation with UNIDO. A delegation from the Islamic Republic of Iran had gained experience from participating in industrial promotion forums held in Kenya and Nigeria.

30. Following the establishment of IPTCS, his Government would invite interested parties to participate in an investment promotion forum to offer their projects, following which joint venture agreements might be concluded. However, interested parties were already being invited to undertake investments in Qeshm Island, which had recently been designated as a free zone in the Persian Gulf. The UNIDO Coordination Commission at the Ministry of Industry of his country would make the necessary arrangements.

31. His Government welcomed the initiative taken by UNIDO for a growth in the delegate programme planned for the 1992-1993 biennium in IPS offices (paragraph 23 of document IDB.8/18), and was willing to participate in the programme.

32. Through computer aids and related training and particularly through the use of the new techniques of feasibility studies and financial analyses of projects such as COMFAR, as well as by the establishment of links with other IPS offices and international financial institutions, his Government hoped to boost industrial development in cooperation with UNIDO.

33. Mr. OBA (Japan) said that his delegation fully supported the investment-related activities of UNIDO and had spared no effort to assist in the further development of the programme through the activities of the Tokyo IPS office and through voluntary contributions to assist in the identification of possible opportunities for investment. In 1991, as a new departure, the Tokyo office, as part of its delegates programme, had hosted delegates from sub-Saharan African States.

34. His delegation wished to stress the need to adhere to the IPS guidelines adopted some years before. In particular, it was concerned at the increasing number of centres for industrial cooperation which were part of UNIDO's activities. Funds from the regular budget were used to backstop their activities by UNIDO Headquarters. The time had perhaps come to define and clarify the characteristics, functions and terms of reference of those centres within the framework of UNIDO's mandated activities.

35. His delegation appreciated the timely presentation of the investment activities evaluation report, a type of study which provided a valuable opportunity for in-depth analysis of UNIDO's work in the promotion of industrial investment. Any investment promotion effort carried out by UNIDO should eventually result in the transfer of technology and the enhancement of managerial, institutional and manpower capabilities and the creation of opportunities for the recipient countries.

36. Miss BROCHET (France) said that France had always supported UNIDO's industrial investment activities and financed an investment promotion service in Paris which hosted delegates from developing countries. France had also allocated nearly $2 million to the programme for the agro-food sector jointly organized by the Government of France, UNIDO and the International Finance Corporation, under which a data bank had been established including more than 500 French firms in the agro-food sector prepared to engage in industrial cooperation. The file was now being extended to three further sectors. The programme also covered missions to identify local partners in Africa, Asia, Latin America and central and eastern Europe, and pre-investment and investment studies. The programme was proving very useful in developing long-term industrial cooperation.

37. France welcomed the increase in the amount of industrial investment generated by projects promoted by UNIDO in 1990, as compared with 1989.

38. Her delegation appreciated the high quality of the evaluation report and supported most of the recommendations. However, it had a few additional points to make.

39. Using its network of international contacts, UNIDO should concentrate its identification and promotion efforts on small and medium-sized private-sector enterprises, and gear its approach to the specific needs of each region.

40. In view of the structural problems noted in the evaluation report, the industrial investment activities currently being carried out by 10 units should be consolidated and the Industrial Investment Division and Feasibility Studies Branch should be merged.

41. Her delegation attached great importance to an integrated approach. The project identification and selection phase should be improved; project quality should be stressed rather than quantity; greater attention should be paid to end-users, particularly industrial concerns in the private sector; and there should be more systematic follow-up of promoted projects.

42. There was a need to coordinate project promotion and identification activities at UNIDO Headquarters; attention should be paid to the constant updating of data banks, improved dissemination of information to end-users in a single network, and adequate assessment of the viability of industrial projects.

43. As far as investment forums were concerned, there was a need for careful prior selection of quality projects supported by local promoters, guaranteeing industrialists at the forums a minimum level of feasibility, and for partners in the forum to be targeted, particularly with regard to representatives of industry and the financial sector.

44. Better assessment of the investment promotion network was needed, common working rules should be adopted and links between financial sectors and industrialists improved.

45. National promotion agencies in developing countries should be used to filter local demands. However, her delegation had reservations about the establishment of regional agencies.

46. There was a need for closer cooperation with financial donors at multilateral, regional and bilateral levels. They should become more systematically involved on a case-by-case basis, and criteria should include project feasibility.

47. She stressed the importance attached by France to results and to the effective implementation of projects. She drew attention to the fact that investment flows to the developing countries, in particular the least developed countries, had declined. UNIDO should seek ways of redressing that state of affairs.

48. Mr. MUÑOZ LEDO (Mexico) said that his country had taken note of the progress achieved in UNIDO's industrial investment promotion activities and that it believed that the continuing regionalization of those activities was a step in the right direction to meet the differing needs of the developing countries. Members would have a better picture of the impact of those activities if the data made available were to refer to investments actually made and not to commitments. Regarding the Investment Promotion Service offices, his Government had recently concluded an agreement with the Warsaw Office providing for a one-year assignment to that office of a Mexican official to identify investment and financing possibilities. In return, a Mexican financial institution would receive a Polish official.

49. In the Board's decision IDB.6/Dec.15, the Director-General had been reminded that he should submit as soon as possible a study on the possibilities and modalities for fostering regional investment promotion activities, but document IDB.8/18 (paragraph 11) indicated that, owing to staff and financial constraints, only the African region had been studied. His delegation wished to draw the Director-General's attention again to the need to submit the study in question to the General Conference at its next session.

50. With regard to the evaluation report prepared on the subject of investment promotion activities, his delegation had not received the document summarizing the contents of the report, but he wished to make some preliminary comments. Firstly, the report did not represent an in-depth assessment of UNIDO's investment promotion activities, but rather a series of random recommendations. Little or nothing was said about the work of the IPS offices or of the international development centres in Moscow and Beijing. Secondly, the establishment of IPS offices was not an essential requirement for the encouragement of industrial investment in the developing countries. Thirdly, the proposal to charge businessmen a fee, however small, for investment promotion services was not consistent either with UNIDO's mandate or with the principles of international cooperation.

51. Before any recommendation was adopted, his delegation would prefer the Director-General to revise the report so that it would provide a real evaluation of the Organization's activities in the

area of investment promotion. It should also be borne in mind that the main objective of those activities was the mobilization of financial resources towards developing countries and that the services provided in that field should be aimed at ensuring maximum usefulness for industry in the developing countries and not assessed in terms of the financial rate of return.

52. Mr. PROKHOROV (Union of Soviet Socialist Republics) said that the problem of mobilizing financial resources for industrialization in the developing countries was becoming more acute as a result of a series of factors which were determining trends in structural changes in the entire system of global economic relations, the most important being the imminent prospect of a redistribution in the scale and direction of financial flows, arising from the overall imbalance in world economic development.

53. For that reason, his delegation welcomed the conclusions and proposals put forward by the Secretariat with the aim of enhancing the effectiveness of UNIDO's investment promotion activities, particularly through concentrating those activities in a single unit and establishing an integrated system for evaluating the quality of projects, including modernization of the information system concerning investment promotion and the corresponding computerized data bases. The impact of such measures could be greatly enhanced if there was widespread use of international expert groups to undertake a comprehensive analysis of the investment cycle, taking into account the social and economic climate in a particular developing country and its natural and human resources.

54. UNIDO could fulfil its mandate more effectively by involving the countries concerned, including eastern European countries, more closely in its activities, and by extending and improving its Investment Promotion Services and assisting planning and managerial agencies at the national level. The training of highly qualified staff, the provision of consultancy services and the holding of investment forums were also objectives which might be given precedence over more traditional forms of technical assistance.

55. The regional component in industrial investment promotion also held great potential, but UNIDO's successes in that area had unfortunately proved to be modest, although a series of projects relating, in particular, to information networks and subcontracting exchanges, for example in Latin America and the Middle East, had been both effective and practical. His delegation considered that the Secretariat should devote greater attention to regional programmes and projects for the promotion of industrial financing and that it should cooperate more actively with the United Nations regional commissions in that regard.

56. In conclusion, he said that there were considerable possibilities in the long term for coordinated regional and national efforts to attract foreign investment for financing environmental protection programmes.

57. Mr. RASAPUTRAM (Observer for Sri Lanka) said that the success of the industrial investment promotion programme could not be measured in financial terms alone, since the multiplier effects of investment on income, employment and output could also bring lasting benefits in terms of accelerated growth. In that regard, his delegation noted with great satisfaction the steady progress made by IPS offices in promoting and successfully completing investment projects. For that reason, his delegation fully supported the strengthening and expansion of the programme. In that connection, he welcomed the assistance provided in the organization of the forthcoming Sri Lanka Investment Forum, to be held in November 1991. It was hoped that the result would be a greater flow of resources to Sri Lanka through private sector participation, in view of the transition currently under way from central planning to private initiatives. The UNIDO IPS offices might be able to advise the investment-receiving countries regarding the feasibility of setting up various ventures, taking into account environmental and consumer concerns.

58. The IPS offices in countries such as his own would benefit from larger premises and increased numbers of staff. On-the-job training also played an important role in ensuring the success of the IPS offices, and in that connection he drew attention to the facilities provided by the Governments of Switzerland and Japan for the placement of IPS personnel from Sri Lanka in the IPS offices in their countries. Such facilites could usefully be expanded.

59. There was also room for expansion in the programme of investment forums and country presentation tours, and for greater emphasis on the training of national personnel in such areas as negotiations, legal procedures, information, project profiles, property rights and the availability of hardware and software. Such training would enable national personnel to be more effective in selecting foreign business partners.

60. UNIDO had also organized workshops on matters relating to investment promotion, and he hoped that the Organization would continue its work in that area, with added momentum and on a more regular basis. Such workshops were of great benefit to officials and to private sector entrepreneurs.

61. His delegation appreciated the work carried out by the UNIDO Liaison Office in Geneva in providing information about UNIDO investment promotion activities. He hoped that the Geneva Liaison Office would be able to organize more briefing sessions on a regular basis for the benefit of representatives of missions who were unable to visit Vienna frequently.

62. In conclusion, he said that the IPS offices, whose staff were highly skilled, should be particularly sympathetic to the aspirations of the developing countries at a time when those countries were endeavouring to accelerate their adjustment to free market policies.

63. Mr. FAROOQI (Observer for Pakistan) said that the 26 per cent increase from 1989 to 1990 in the amount of industrial investment promoted by UNIDO represented a notable achievement in an area to which his country attached great importance.

64. Pakistan had much to offer the foreign investor in terms of industrial raw materials, competent and hardworking manpower at competitive wages and infrastructural facilities, in addition to the advantages conferred by deregulation and the modernization of exchange/payment procedures.

65. His Government was organizing an investment promotion conference, to be held from 18 to 20 November 1991, to attract foreign investment in the country. More than 300 investors would be

invited to discuss ways and means of promoting investment in Pakistan and the transfer of modern technology. His delegation requested UNIDO's assistance in organizing the conference.

66. His delegation appreciated UNIDO's efforts to establish focal points for those Member States not in a position to establish full-scale investment promotion services. Such focal points would act as the recipients of industrial development project proposals for consideration in the host country, and also as centres for gathering information on investment project promotion meetings and other relevant documentation. As a first step towards the possible establishment of an IPS office in Pakistan, UNIDO could designate the Planning Wing of the Pakistan Ministry of Industry as a focal point for foreign investment-related activities jointly undertaken by UNIDO and Pakistan.

67. Mr. SAENZ PICADO (Costa Rica) said that his Government appreciated the contribution made by the Republic of Korea to a pre-investment study for an industrial zone to be established in his country. It also welcomed the substantial increase in the technical cooperation and industrial investment promotion programme, as well as the growth in the number of investment projects actually completed.

68. Mr. RAHMAN (Sudan) said that environmental considerations should not be neglected in industrialization projects in the developing countries. Emphasis should also be placed on training, the consolidation of industrial structures, feasibility studies and the development of human resources.

69. His own country had embarked on a policy of economic liberalization aimed at encouraging investment in the private sector. The policy would, inter alia, allow foreign investors to transfer profits, and would eliminate price indexing. A UNIDO mission had already visited Sudan to assist in the restructuring effort.

70. With regard to investment flows, he said that he welcomed the observations made by the representative of France, and appealed to UNIDO to find the means to ensure that adequate financing was directed towards the developing countries.

71. Mr. HAEBERLI (Switzerland) said that, while the report on UNIDO's investment promotion activities provided a valuable analysis and correctly emphasized the need to concentrate on those aspects which yielded the best results, the Secretariat had too often been content merely to list activities without indicating with sufficient clarity the necessary priorities, which it was particularly important to determine in the light of UNIDO's financial and staff constraints.

72. At the same time, he shared the view that efforts should be focused on the Industrial Promotion Services, and on the delegates programme in particular, as the cornerstone of the investment promotion programme. For that reason, his Government had increased the number of delegates attached to the IPS office in Zurich and had extended the programme to include the eastern European countries. In Switzerland's case, it should be pointed out that technical assistance funds for the countries of eastern and central Europe were supplementary to official development assistance resources.

73. Although his delegation agreed with the recommendation that guidelines should be formulated for all the IPS offices in different countries, with the aim of ensuring that they had the same objectives, it did not believe that their activities and resources should be standardized. What was required was clear and quantifiable criteria which would make it possible to evaluate and compare their performance. The independence of the individual IPS offices was one reason for their effectiveness.

74. Ms. CONSTANTINO (Philippines) said that industrial investment promotion was an integrated activity of the Organization which cut across the various sectoral programmes and entailed contacts between Governments and the private sector in order to bring about concrete forms of investment and/or technical cooperation activities. However, because of its independent character, UNIDO was often obliged to withdraw at the implementation stage of a project, particularly in the case of projects involving enterprise-to-enterprise cooperation. It was thus sometimes difficult for Member States fully to appreciate the value of the various investment promotion activities being carried out by UNIDO, particularly if they were evaluated in terms of implementation.

75. Her delegation firmly supported the Organization's investment promotion activities, and especially the holding of investment forums and the delegates programme under the auspices of the Investment Promotion Service offices. With regard to the latter, it expressed appreciation to the Government of Japan for the training facilities provided by the Tokyo IPS office, which had enhanced the investment promotion skills of officials in the Asia-Pacific region and, more importantly, had served as a focal point for crystallizing actual investment projects.

76. With respect to the promotion and enhancement of regional cooperation, her delegation noted with appreciation the assistance extended by UNIDO in identifying and promoting projects for the ASEAN Industrial Joint Venture Scheme through the preparation of opportunity studies. UNIDO had been instrumental in confirming the viability of that form of cooperation, and her Government looked forward to continued cooperation with the Organization. In conclusion, she emphasized the advantages which would accrue to ASEAN from UNIDO assistance in implementing the two technical cooperation projects submitted to the Organization by the tripartite meeting held at Manila in August 1990 as soon as funds were available.

77. Mr. ASHRI (Saudi Arabia) said that the industrial investment promotion programme was a very important aspect of UNIDO's activities, and that it had already led, in particular, to the initiation of 32 projects in the electronics field, some of them in the Arabic-speaking countries. He hoped that the momentum of those activities would be not only maintained but increased, particularly at the regional level.

78. He wished also to point out that it was incorrect to refer to the sea area to the north-east of his country as "the Persian Gulf": its proper title was "the Arabian Gulf".

79. Mr. MAJID (Iraq), after congratulating the Secretariat on the quality of the documentation it had provided in connection with the item under consideration, said that he felt obliged to

clarify the situation regarding refugees, to which the representative of Iran had made reference earlier. While he did not object to what the Iranian representative had said, it should be pointed out that political reasons lay behind the fact that refugees had not been permitted to return to Iraq, although many had in fact done so. He supported what the previous speaker had said regarding the term "the Arabian Gulf".

80. Mr. Tofigh (Islamic Republic of Iran) resumed the Chair.

81. Mr. HOSSEIN ZADEH (Islamic Republic of Iran) said that a senior United Nations official had recently confirmed in writing that the term "the Persian Gulf" was to be used in United Nations documents. He added that the amount of compensation payable as a result of damage arising from the Gulf war and the Iran-Iraq conflict had now been determined.

82. Mr. PONCE CABALLERO (Observer for Bolivia) acknowledged the considerable significance of many of the technical cooperation projects undertaken by UNIDO in his country and the valuable role which the UNIDO Country Directors played in the technical assistance process. He commended UNIDO for its readiness to assist ecologically viable projects and expressed the hope that it would speed the implementation of programmes for small industries and non-traditional exports.

83. On the subject of industrial investment promotion, he said that Bolivia had begun the privatization of its public-sector industry and looked to private enterprise for progress in industrial development. His Government hoped that the letters of agreement for Bolivian projects which had been signed under UNIDO's investment promotion programme would soon yield beneficial results and that the programme would be a means whereby Bolivia could pursue the hard task of replacing its coca economy by a viable alternative.

84. Mr. ARAOZ (Deputy Director-General, Department for Industrial Promotion, Consultations and Technology) welcomed the support which delegations had expressed for the investment promotion programme and the report on the evaluation of UNIDO's industrial development activities (ODG.12(SPEC.)).

85. Replying to delegations which had raised particular points about the programme, he said that the recommendations in the evaluation report would be studied in the coming months with a view to their implementation. The Industrial Investment Division cooperated with the World Bank and with regional financial institutions whenever the need arose. The impact of UNIDO's investment promotion work was measured in terms of successfully concluded investment projects, as defined in paragraph 4 of the Director-General's progress report (IDB.8/18); it had to be remembered that a long period, perhaps years, elapsed between the conclusion of an investment agreement and its implementation.

86. The Secretariat had taken due note of the comment made about the proposal that UNIDO should charge companies for investment promotion services. It would follow up the suggestion that investment should be attracted for programmes designed to protect the environment. The Secretariat already placed emphasis on regional forms of investment promotion where Latin America and Africa were concerned. It would do the same for Central America and intended to extend such arrangements to the remainder of the developing world.

SPECIAL TRUST FUND PROJECTS (IDB.8/38; IDB.8/CRP.7)

87. Mr. WIESEBACH (Deputy Director-General, Department for Programme and Project Development) drew attention to the documents on the subject which had been submitted to the Board at its sixth session and to the General Conference at its third session (IDB.6/16, IDB.6/CRP.2, GC.3/CRP.2). Those documents described in detail how UNIDO had adapted the trust fund mechanism to meeting the needs of developing countries in the enterprise sector. The Director-General's present report on the subject (IDB.8/38) addressed all the points raised at the Board's sixth session in regard to the Organization's special trust fund projects and gave details of the guidelines for their appraisal, management and operation.

88. He assured the Board that trust fund projects were subject to stringent control of the kind exercised over private-sector projects financed by UNDP and through the Industrial Development Fund. Internally, all trust fund projects were subject to the same procedures as all other projects executed by UNIDO; in addition, they were vetted before approval for compliance with the legal, financial and other instruments governing the Organization's activities and for assurance that they had no chance of subjecting it to financial liability.

89. General Assembly resolution 45/196, on industrial development cooperation and the diversification and modernization of productive activities in developing countries, explicitly recognized the role of UNIDO's special trust fund schemes as alternatives to traditional assistance programmes. In response to the recommendations contained in that resolution, the Organization had been placing emphasis on the linkage of technical co-operation to industrial investment projects. The expectation was that, in continuing that policy, UNIDO would find itself providing project planning and management services to fairly large industrial investment projects. That corresponded to the logic of private-sector industrialization and the evolving needs of developing countries.

90. Mr. PLUG (Netherlands), speaking on behalf of the member States of the European Community, said that they recognized the value of special trust funds in providing access to additional sources of finance. The increasing use being made of them must not, however, take place to the detriment of UNIDO's regular technical assistance programmes. The activities financed through special trust funds must conform fully to the Organization's global strategy and fundamental objectives as well as to the priority aims of the medium-term plan. The Community delegations regretted that the Director-General's report (IDB.8/38) failed to provide detailed information on the use of the various trust funds.

91. He drew attention to the requests made to the Director-General in paragraphs (c) and (e) of Board decision IDB.6/Dec.10 on utilization of experts and equipment from developing countries and on the guidelines for the development, approval and monitoring of implementation of special trust fund projects. The Community

countries took note of those guidelines as set out in annex II to document IDB.8/38. They attached great importance to the in-depth evaluation of the trust fund system called for in Board decisions IDB.6/Dec.10 (paragraph 2 (f)), and IDB.6/Dec.14 and urged both donor and beneficiary countries to cooperate fully with the Secretariat in the evaluation process.

92. Mr. HAEBERLI (Switzerland) said that UNIDO was now using special trust funds to such an extent that the policy-making organs of the Organization needed not only to receive detailed information on the activities financed in that way but also to review and update the guidelines for pursuing them. Although the guidelines proposed to the Board in the Director-General's report (IDB.8/38, annex II) for transmission to the General Conference contained non-controversial sections on monitoring of implementation, reporting and evaluation, other parts of the text revealed dangerous omissions and defects which needed immediate rectification.

93. In the first place, it must be made absolutely clear that trust funds could not be used for any project designed to promote "strategic" industries, i.e. industries connected directly or indirectly with national defence. Sadly, his delegation had reason to believe that not all of UNIDO's special trust fund activities conformed, as the Secretariat claimed in paragraph 9 of the report, to the requirements of its Constitution and other established requirements. Secondly, many trust fund projects consisted in direct aid to an industrial undertaking. It must be made clear that UNIDO should not promote any such project which offered the beneficiary the advantages of tax evasion or any similar evasion of the law. All trust fund projects should therefore be subject to the same rigorous examination for compliance with the Financial Regulations of the Organization as other technical cooperation projects.

94. His delegation was therefore unable to approve the proposed guidelines as they stood. It could only accept them on condition that all special trust fund projects complied fully with UNIDO's purposes and objectives and concerned activities similar to those undertaken under the regular and ordinary budgets; and that they benefited from the same financial clarity in presentation and the same detailed information for member States as the latter activities - in other words, from a much fuller description in the Director-General's annual report than was the case at present.

95. Mr. MOHAMMED (Nigeria) expressed satisfaction at UNIDO's substantial programme of trust fund activities for his country. Its assistance in improving productivity and technical skills in the cement sector had been especially valuable. The Nigerian National Petroleum Corporation had recently concluded a trust fund agreement with UNIDO for assistance in establishing a plastics technology centre which would ensure satisfactory marketing of the products of the Port Harcourt petrochemicals complex and provide technical advice for the growth of the country's petrochemicals industry. Under another trust fund project, his Government had recently appointed UNIDO as procurement agent for the supply of training equipment for four zonal industrial development centres. The Organization continued to provide trust fund assistance to the Nigerian Industrial Development Bank and the New Nigeria Development Company for pre-investment and diagnostic studies.

96. UNIDO should play a more dynamic role in industrial development cooperation and its Members should make every effort to help it do so. The Organization could benefit developing countries by providing them with project planning and management services under trust fund arrangements. As a non-profit-making intermediary, it could help reduce business risks and raise the confidence of investors. For developing countries, UNIDO's special trust fund schemes were a vital alternative to traditional technical assistance programmes as a means of enhancing enterprise efficiency. Developing countries should fully utilize the advantages which those schemes offered and UNIDO should expand its activities in that area through the appropriate reallocation of resources in the Secretariat.

97. Mr. HOSSEIN ZADEH (Islamic Republic of Iran) said that documents IDB.8/38 and IDB.8/CRP.7, together with the documents submitted earlier to the General Conference, the Board and the Programme and Budget Committee, provided clear and comprehensive information on UNIDO's trust fund activities. The Organization's aim was to make itself more directly useful to industrialists and entrepreneurs in developing countries, and Member States should endeavour to help the UNIDO Secretariat to achieve that aim.

98. The concept of industrial cooperation at the enterprise level developed by UNIDO was also most welcome. The Organization was in a unique position to promote such cooperation and mutually beneficial industrial partnerships. The trust fund schemes could also be good vehicles for ECDC/TCDC activities and should be used for that purpose.

99. The rapid growth of trust fund activities over the last four years was proof of increasing confidence in UNIDO's services on the part of companies in developing countries, development finance institutions and donor agencies, and of the need for UNIDO to play a dynamic role in that area. Now that the Organization had provided full information on the programme, Member States should unhesitatingly support it and allow it to grow in response to demands for UNIDO services by the developing countries. Failure to do so at the current session of the Board would greatly jeopardize UNIDO's future as the major agency of the United Nations system responsible for industrial development of the developing countries. That danger was exacerbated by the uncertainties in the Organization's technical assistance programme as a result of changing UNDP policies regarding government execution and agency overheads.

100. His delegation recommended that the Director-General's report (IDB.8/38) should be accepted and that the guidelines for the development, approval and monitoring of implementation of special trust fund projects contained in annex II of the report should be submitted to the General Conference.

101. Mr. PONCE CABALLERO (Observer for Bolivia) expressed the hope that private-sector projects financed through special trust funds would result in the development of an effective alternative to the coca economy, to which he had referred earlier.

102. Mr. OSTERGAARD ANDERSEN (Denmark) said that his delegation subscribed fully to the statement made by the representative of the Netherlands. From previous discussions of the subject by the Board and from the statement made earlier in the

meeting by the Swiss representative, his delegation felt that some delegations of industrialized countries took a very unfavourable view of UNIDO's trust fund schemes, unlike the General Assembly in resolution 45/196. He could not understand that. A programme under which a large number of developing countries benefited annually from $40-50 million more technical assistance than they would have done without it was clearly a beneficial one. The statements made on the subject that morning by the representatives of Nigeria and the Islamic Republic of Iran confirmed that.

103. In the view of his Government, there was no competition between trust funds and the Industrial Development Fund: they were two instruments serving a single purpose in different ways. His Government, as a regular donor to both, could see the advantages of there being both possibilities for funding technical assistance projects.

104. Denmark's first trust fund agreement with UNIDO dated from 1988 and was aimed at direct support for industry in mainly low-income developing countries through short-term study missions. Since the fund in question was almost exhausted and had yielded favourable results, his Government had concluded a second trust fund agreement with UNIDO for the same purposes as the first. It had also concluded a third trust fund agreement, designed to finance pre-investment studies of a more extensive kind than the first agreement. His Government was ready to cooperate fully with UNIDO in an in-depth evaluation of the functioning of its trust funds.

105. Mr. CHEN Shigiu (China) said that his delegation had read the report of the Director-General (IDB.8/38) with great interest and was pleased to note that the past few years had witnessed rapid growth in UNIDO's special trust fund activities. Technical cooperation activities financed by those funds were accounting for a larger proportion of the Organization's operational activities. The activities of recent years had shown that the special trust fund schemes had become an important supplemental instrument with a special role to play in the areas of industrial rehabilitation, ECDC/TCDC and subregional cooperation for industrial development. As noted in United Nations General Assembly resolution 45/196, UNIDO's special trust fund schemes had contributed to providing alternatives to traditional assistance programmes. As those activities were focused on cooperation at the enterprise level, they would also contribute to a diversification and modernization of production activities in the developing world. The fact that the special trust fund activities were carried out by a very limited number of staff and with a tight budget was particularly commendable.

106. Beginning in 1992, UNDP would be introducing overall national execution into its indicative planning figure (IPF) projects and the successor arrangements for support costs. Consequently, one of UNIDO's most important sources of money for technical cooperation activities would no longer be secured, and it was likely that the Organization would depend increasingly on itself for fund-raising. The special trust fund schemes would take on added importance as a source of funding for UNIDO. Good performance in that area should be a strategic goal in the effort to strengthen the Organization's capacity.

107. His delegation was pleased to note the attention given to the special trust fund activities in the draft medium-term plan, and hoped that that would be reflected in the biennial programme and budget prepared by the Secretariat and that the units concerned would be given more staff and larger budgetary allocations.

108. The continued expansion of the special trust fund activities depended largely on efficiency in the management of the funds. UNIDO should continue to improve its managerial performance in that area and to upgrade the quality of its staff so as to minimize costs and overheads. Project identification and formulation should be improved to ensure that every project selected was in line with the priorities of the recipient country and would produce maximum output at the lowest cost. His delegation appealed to the donor countries to increase their contributions.

109. Mr. BRNELIC (Yugoslavia), after highlighting the relevance to the discussion of resolution 45/196 of the United Nations General Assembly, said that the focus on cooperation at the enterprise level which characterized the special trust fund scheme was the best way to modernize productive capacities in the developing countries.

110. Given the new UNDP/agencies arrangements and the need to strengthen cooperation at the enterprise level still further, his delegation would endorse, for submission to the General Conference, the proposed guidelines contained in document IDB.8/38.

111. Lastly, his delegation wished to plead in favour of a strengthening of the Secretariat units responsible for industrial cooperation and the mobilization of funds.

112. Mr. OBA (Japan) said that his country's contribution to special trust fund activities came from two sources - official development assistance (ODA) furnished by the Government and funds from the private sector. ODA, initiated in 1987, had produced pledges to a total value of $6.2 million: the major beneficiaries were the least developed countries in sub-Saharan Africa, with emphasis on women-related and grass-roots enterprises, but there was also support for environment programmes in Asia and Latin America, quality development in the motor vehicle industry in Eastern Europe and the Regional Cooperation Programme for Latin America and the Caribbean.

113. Although there might be room for improvement in the special trust fund arrangements, which were still something of a novelty in UNIDO's technical assistance delivery system, the Japanese Government was so far satisfied with the manner in which its contribution had been used to help burgeoning industries in many parts of the world, and would continue to cooperate under the scheme.

114. Mr. IONESCU (Observer for Romania) said that the documentation before the Board, including the encouraging figures presented in annex I of document IDB.8/38 and the information concerning the large number of projects prepared and implemented in recent years, demonstrated the utility of self-financed and third-party-financed trust funds as supplementary mechanisms for the provision of useful services to industrial enterprises and institutions in the developing countries.

115. Commending UNIDO on its full respect for United Nations procedures and rules for the development, approval and monitoring of the implementation of special trust fund projects, and on the manner in which those projects were conducted alongside more traditional forms of technical assistance, he stressed the significance of United Nations General Assembly resolution 45/196 and expressed the hope that progressive refinements would lead to the further development and strengthening of the special trust funds scheme for the benefit of the developing countries.

116. Mr. YOGASARA (Indonesia) commended the documentation before the Board, and noted that the item under consideration was closely related to item 9, on industrial development cooperation and diversification and modernization of productive activities in developing countries.

117. Trust fund contributions from Japan had been used in Indonesia to identify 12 projects for new investment, rehabilitation and industrial services. The scheme had proved particularly useful in establishing linkages between technical cooperation activities and investment projects; it was his delegation's hope that more trust fund activities would be generated in Indonesia, involving cooperation between public and private enterprises, with a view to promoting inward investment flow, as well as projects for technical and financial collaboration between Indonesian companies and companies in other developing countries.

118. Against the background of the provisions of United Nations General Assembly resolution 45/196, his delegation urged UNIDO to continue to seek to attract self-financed project funding and third-party-financed funding through special trust fund arrangements.

119. Mr. PAREDES PORTELLA (Peru) said that special trust funds were an important tool that UNIDO could use in its efforts to provide competitive services in its fields of competence. His delegation assessed those programmes and activities in a generally positive manner, although it believed that certain specific matters merited further attention; among them he would mention the possibility of fully utilizing the IPS offices for the acceleration of special trust fund activities, thus creating a closer relationship between two of the most dynamic components of the Organization's activities. Greater efforts should be made, in the spirit of United Nations General Assembly resolution 45/196, to develop trust fund schemes as alternatives to traditional multilateral technical assistance programmes, which had yielded rather modest returns. Within the limits of available resources, the Special Trust Fund Projects Section should be strengthened. His delegation endorsed the guidelines contained in annex II to document IDB.8/38, and asked the Secretariat to prepare a detailed report on the situation and latest developments in what was a very important domain of UNIDO's work.

120. Mr. ANGUIANO ROCH (Mexico) said that his country, which had joined in the consensus for the adoption of United Nations General Assembly resolution 45/196, acknowledged the contribution of the special trust fund scheme launched by UNIDO in developing alternatives to traditional assistance programmes. That being so, his delegation considered it important to have in-depth knowledge of the mechanisms of the special trust fund scheme, the functioning of which should be transparent. In decision IDB.6/Dec.10, the Board had not only called for updated and consolidated guidelines on the modalities for the appraisal, management and operation of special trust fund projects, but had also appealed to donor countries to cooperate in preparing in-depth evaluation reports on such projects. The guidelines contained in annex II to document IDB.8/38 were no more than a compendium of existing internal administrative guidelines and, as such, inadequate for the Board's purpose; an in-depth review of the projects by Member States themselves was essential.

121. The Mexican delegation, while in full agreement with those which had spoken on behalf of donor and beneficiary countries alike in appreciation of the programmes and activities financed by special trust funds, was unable to give its endorsement to a set of guidelines which were neither complete nor up to date. It considered that the Director-General, in accordance with decisions IDB.5/Dec.12 and IDB.6/Dec.14, should submit an in-depth evaluation report on special trust fund programmes and activities.

122. Mr. PROKHOROV (Union of Soviet Socialist Republics) confirmed his country's commitment to industrial cooperation and the mobilization of funds. It had itself already contributed to special trust fund projects in the USSR and was financing the UNIDO Centre for International Industrial Cooperation in Moscow. Plans were in hand for a substantial increase in the coming year in the USSR's support for the special trust fund scheme, which - as the attitude of many Member States had demonstrated - was deemed to constitute a dynamic area of UNIDO's activity, characterized by usefulness and effectiveness. His delegation consequently believed that steps should be taken to ensure that the Special Trust Fund Projects Section had at its disposal financial and human resources commensurate with the tasks assigned to it.

123. Mr. BOKONGA (Zaire) said he was convinced that many other delegations, and more particularly those from the developing countries, would agree with him that the special trust fund scheme, after four years' existence, had demonstrated itself to be a dynamic and promising programme. He expressed gratitude to those countries which had contributed to special trust fund projects, and hoped that the programme would expand further.

124. The detailed information presented to the Board showed that enterprises in the developing countries were increasingly resorting to special trust fund arrangements in their quest for high-level, independent expertise and well thought-out assistance which would open the way to new options. The Secretariat deserved full support in developing activities which offered a real alternative for the industries of the developing countries, faced as they were with increasingly complex problems related to the restructuring and privatization of their economies. Special trust fund arrangements had already done much to help them solve those problems; he believed that vast possibilities remained both unexplored and unexploited.

125. Mr. PUTHO (Observer for Thailand), expressed appreciation for the documentation before the Board. The trust fund schemes were highly

transparent, well within UNIDO's constitutional mandate and fully integrated into the Organization's policies and strategies as spelt out in the medium-term plan. While many agencies of the United Nations system talked about assisting private sector development but were so tangled up in their own bureaucratic procedures that they were almost useless to the developing country industrialist who owned a factory or wanted to build one, it was refreshing and encouraging to see that UNIDO had developed something constructive and innovative that would render the Organization more directly useful to industrialists and entrepreneurs in those countries. In Thailand, trust fund contributions from Japan had been profitably used to finance a study on the engineering, electronics and chemical industries, and Thailand would strongly encourage Member States to make full use of the scheme in widening their options for the selection of technical and financial partners and promoting industrial investment, the transfer of technology and expertise between developing countries and cooperation between industrialists and entrepreneurs in those countries for their mutual benefit. There were enormous possibilities in those directions if only they were recognized.

126. In conclusion, he urged all Member States which had initiated and supported United Nations General Assembly resolution 45/196 to give a strong mandate to UNIDO to enable it to respond to the recommendations which it contained.

127. Mr. KIM (Republic of Korea) commended the special trust fund scheme and its systematic pursuit of an "industry focus" whereby in-depth knowledge might be acquired concerning the resources and capabilities of companies, industrial associations and relevant non-governmental organizations.

128. In 1990, his Government, wishing to promote economic cooperation among developing countries, had assumed the sponsorship of a trust fund project, with seven separate components encompassing a variety of countries, regions and topics, to a total value of $300,000. Korean companies, as well as companies and promoters in developing countries would be involved in the transfer of technology and expertise; the financing arrangements would include joint ventures.

129. His delegation firmly believed that UNIDO's special trust fund projects could serve as effective instruments for the promotion of ECDC/TCDC, which enjoyed high priority in his Government's multilateral cooperation policies. UNIDO was to be commended on developing an innovative mechanism whereby concrete programmes and activities could be implemented, and all Member States should be urged to help in strengthening arrangements which could play a dynamic role in the acceleration of industrial development in the developing world.

130. Mr. WIESEBACH (Deputy Director-General, Department for Programme and Project Development), responding to the debate on item 13, said that programmes and activities financed by special trust funds constituted one of the most positive, dynamic and promising aspects of UNIDO's present work; the very high growth rate - which he hoped would be maintained - demonstrated a confidence in the Organization's capability and cost-effectiveness which had been voiced in no less a forum than the United Nations General Assembly; that manifestation contrasted oddly with the doubts that were sometimes expressed concerning the efficiency of the specialized agencies. Furthermore, the fact that Governments were making their own funds - often obtained at considerable cost to themselves - available to UNIDO demonstrated their faith in obtaining sound returns on their investments. UNIDO's operational budget would be in a very sorry state without the special trust fund scheme.

131. As the integration of trust fund activities into UNIDO's mandate was provided for under the medium-term plan, the misgivings expressed by a number of delegations during the present discussion concerning the contents of the programme were hard to understand; but the Secretariat would take those comments into account if the Board so decided. He would, however, warn members against the misconception that the problems of non-developmental use were peculiar to trust funds: in fact, any funds, irrespective of the types of programmes to which they were attached, could be subject to misuse, but the Secretariat was making every effort to ensure that that was not the case. In addition, all special trust fund projects were properly vetted by the Organization's legal and financial services to ensure that no undue obligations were incurred.

132. Mr. ANGUIANO ROCH (Mexico) agreed with the Director-General that confidence in special trust fund programmes and activities was amply demonstrated by the amount of financial investment they were attracting from a variety of important sources including the World Bank; he also acknowledged that provision had been made for the legal and financial regulation of the arrangements, concerning which guidelines had been prepared. That being said, however, he continued to believe that there was room for an improvement and broadening of supervisory measures related to the utilization of trust funds.

The meeting rose at 1.20 p.m.